DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814

May 15, 2003

FOSTER CARE AUDITS AND RATES LETTER (FCARL) NO. 2003-02

TO: ALL GROUP HOME (GH) PROVIDERS
ALL FOSTER FAMILY AGENCY (FFA) PROVIDERS
ALL GH AND FFA CERTIFIED PUBLIC ACCOUNTANTS
ALL COUNTY WELFARE DIRECTORS
ALL COUNTY CHIEF PROBATION OFFICERS
ALL COUNTY MENTAL HEALTH DIRECTORS

SUBJECT: FINANCIAL AUDIT CHANGES, INCLUDING IMPLEMENTATION OF OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 REQUIREMENTS

REFERENCES: FCARL NO. 2002-01, DATED OCTOBER 21, 2002
FCAL NO. 2001-03, DATED JUNE 14, 2001

This letter is to provide updated information regarding changes in the financial audit requirements which affect the financial audit reports to be submitted by providers as a condition of receiving an Aid to Families with Dependent Children – Foster Care (AFDC-FC) rate.

As previously indicated in Foster Care Audits Letter (FCAL) No. 2001-03, the federal Administration for Children and Family Services Regional Administrator determined that California foster care Group Home (GH) and Foster Family Agency (FFA) providers are subrecipients rather than vendors and, therefore, subject to compliance with the federal Office of Management and Budget (OMB) Circular A-133 audit requirements. Assembly Bill (AB) 444, Chapter 1022, Statutes of 2002, amended the Welfare and Institutions Code (WIC) Section 11466.21 so that a financial audit report (FAR) is no longer required as a component of an AFDC-FC rate application. However, a FAR is still required as a condition to receiving an AFDC-FC rate. Manual of Policies and Procedures (MPP) Section 11-405.2 has been revised to implement the OMB Circular A-133 requirements and to address the changes to the financial audit process, including standards to be followed and due dates for submission of FARs.

Highlights of the financial audit changes and other important details regarding non-profit corporation actions needed to ensure timely submission of an acceptable FAR are provided below. In addition, enclosed is a guide on how to determine the amount of federal funds received by a non-profit corporation.

Providers Receiving Combined Federal Funds of $300,000 or More

Beginning April 1, 2003, OMB Circular A-133 audit standards will be required for a non-profit corporation that operates a GH and/or a FFA program which receives $300,000 or more in combined federal funds for all of its programs and activities during the non-profit corporation's fiscal year. A non-profit corporation that meets the OMB Circular A-133 funding threshold ($300,000 or more) will be required to submit a FAR annually in accordance with OMB Circular A-133 audit standards. The FAR must be submitted to the California Department of Social Services (CDSS) within the earlier of 30 days after receipt of the independent auditor's report or nine months after the end of the non-profit corporation's most recent fiscal year.

A non-profit corporation that meets the OMB Circular A-133 funding threshold but whose fiscal year began before April 1, 2003 may submit a FAR using *Government Auditing Standards* (Yellow Book) or OMB Circular A-133 standards for that fiscal year only. The FAR must be submitted to the CDSS within the earlier of 30 days after receipt of the independent auditor's report or six months after the end of the non-profit corporation's most recent fiscal year. Subsequent FARs must be in compliance with OMB Circular A-133 standards.

Providers Receiving Combined Federal Funds of Less Than $300,000

Government Auditing Standards (Yellow Book) will continue to be the audit standard for those GH and/or FFA non-profit corporations that receive less than $300,000 in combined federal funds during the non-profit corporation's most recent fiscal year. The FAR must be submitted to the CDSS within the earlier of 30 days after receipt of the independent auditor's report or six months after the end of the non-profit corporation's most recent fiscal year. In accordance with WIC Section 11466.21(a)(2), a non-profit corporation that is exempt from the OMB Circular A-133 audit standards (less than $300,000) will be required to submit a FAR at least once every three years on a schedule determined by the CDSS. More frequent audit submission may be required by the CDSS under special circumstances. On November 6, 2002, the CDSS sent a letter to each non-profit corporation identified as receiving less than $300,000 in federal funds, based on previous FARs submitted, notifying them of the due date for submission of the FAR. If your corporation received that letter but received $300,000 or more in federal revenue for the year, your corporation must submit a FAR for that year and every year thereafter when federal revenue received is $300,000 or more.

Cost Data Required for All Financial Audit Reports

For audits conducted under either OMB Circular A-133 audit standards or *Government Auditing Standards*, the financial audit must also now include an audit of cost data for each program as reported on the most recent versions (12/02) of the Group Home Program Cost Report (SR 3), Group Home Program Payroll and Fringe Benefit Report (SR 4) and Total Program Cost Display (FCR 12FFA for a foster family agency).

The cost data reported must be consistent with the non-profit corporation's fiscal year audit period. Non-profit corporations whose fiscal year began prior to April 1, 2003 may submit audited or unaudited cost data for that fiscal year. However, in subsequent fiscal years the cost data must be audited and submitted with the FAR.

Providers with Internet access can obtain the cost data forms by using the following website links:

Group Home Program Cost Report (SR 3): www.dss.cahwnet.gov/pdf/SR3.PDF

Payroll & Fringe Benefit Report (SR 4): www.dss.cahwnet.gov/pdf/SR4.PDF

Total Program Cost Display (FCR 12FFA): www.dss.cahwnet.gov/pdf/FCR12FFA.PDF

New Providers

In accordance with WIC Section 11466.21(b)(3), a non-profit corporation that has been incorporated fewer than 12 calendar months by the end of its first fiscal year in which it received AFDC-FC funds shall not be required to submit a financial audit report. The financial audit shall be conducted on the non-profit corporation's next full fiscal year of operation and the FAR must be submitted to the CDSS along with the audited cost data following all applicable regulatory requirements under MPP Section 11-405.21.

Good Cause for Late FAR

A non-profit corporation that is unable to submit a timely FAR by the due date may submit a written request for "good cause" as specified in MPP Section 11-405.217. However, a good cause request should be rare and will not be granted to a non-profit corporation that engages a certified public accountant or licensed public accountant at a date too late for timely completion and submission of the FAR. A good cause request can only be granted for circumstances beyond the non-profit corporation's control, not for the failure of the non-profit corporation to act in a timely manner.

Penalty for Failure to Submit a FAR

Please note that it is imperative for each non-profit corporation to submit a FAR which meets appropriate OMB Circular A-133 or *Government Auditing Standards*. A non-profit corporation that fails to submit an acceptable FAR by the required due date is subject to rate termination under MPP Section 11- 405.219.

Reimbursement of Financial Audit Costs

Assembly Bill 444 also amended WIC Section 11466.21(c) to limit eligibility for reimbursement of financial audit costs to those GH and FFA non-profit corporations that receive less than $300,000 in combined federal funds during their fiscal year. An additional eligibility requirement for GH non-profit corporations is that they must have a licensed capacity of 12 or less. Pursuant to MPP Section 11-405.221, the non-profit corporation may apply for financial assistance related to the cost of the FAR, by submitting to CDSS an acceptable FAR, an invoice for the total cost of the audit, proof of payment, and any other relevant documents needed to validate the claim for reimbursement. Failure to submit all required documentation timely may result in the inability to provide reimbursement for the claim since funding for financial audit cost reimbursement is limited and allocated on an annual basis in the State Budget Act.

Emergency Regulations

Emergency regulations are being developed to implement changes in the frequency of FARs required for non-profit corporations that receive less than $300,000 in combined federal funds during the corporation's fiscal year and in the eligibility criteria for partial reimbursement of financial audit costs. The additional regulation changes are necessary for compliance with other amendments to WIC Section 11466.21 which resulted from AB 444. Notice of the emergency regulations will be provided through the regulation adoption process.

Additional Financial Audit Requirements

The WIC Section 11466.21(a)(4) requires that the financial audit be conducted by a certified public accountant (CPA) or by a state-licensed public accountant (PA) who has no direct or indirect relationship with the functions or activities being audited, or with the provider, its board of directors, officers or staff. The CPA or PA must have a current and valid license and must have completed the experience required to perform the full range of accounting services. The California Board of Accountancy's website can be accessed at www.dca.ca.gov/cba for licensure status and to confirm that the independent auditor has an "A" designation for experience completed. An independent auditor with a "G" designation can perform most accounting services but is not authorized to sign FARs. The audit performed by the CPA or PA must cover **all** programs operated by the non-profit corporation, regardless of funding source.

The MPP Section 11-405.112 requires providers to maintain documentation to support AFDC-FC program expenditures for a minimum of five years. In addition, a non-profit corporation is responsible for preparing financial statements in accordance with generally accepted accounting principles, while the CPA or PA is responsible for auditing the financial statements and issuing an opinion on the statements. In order for the CPA or PA to complete the financial audit for the year required, financial records from previous years must be available. A non-profit corporation should exercise prudent business practices by keeping well-organized records of all business transactions and preparing financial statements every year.

This practice would help prevent a "disclaimer of opinion" from being issued. A CPA or PA may issue a "disclaimer of opinion" when records of the non-profit corporation are so poor (incomplete, inaccurate, or unavailable, etc.) that an audit cannot be completed and the CPA or PA is unable to form an opinion on the financial statements. Since a FAR with a "disclaimer of opinion" issued by the CPA or PA does not meet the FAR regulatory requirements under MPP Section 11-405.21, a non-profit corporation that submits such a FAR would be subject to rate termination.

Where to Submit the FAR, Cost Data and Claim for Audit Cost Reimbursement

The Financial Audit Report Transmittal form, SR 8 (Rev. 4/03), available online at www.dss.cahwnet.gov/pdf/SR8.PDF should be used to submit the FAR (including cost data) and any claim for partial audit cost reimbursement to the following address:

California Department of Social Services
Foster Care Audits and Rates Branch
Financial Audits and Investigations Bureau
ATTENTION: Frank Fong
744 P Street, MS 19-24
Sacramento, California 95814

Should you have any questions regarding the financial audit, the due date for your non-profit corporation's FAR, and/or the audit cost reimbursement process, please contact the Financial Audits and Investigations Bureau at (916) 274-0445.

Sincerely,

Original signed by

CORA L. DIXON, ACTING CHIEF
Foster Care Audits and Rates Branch

Enclosure

c: African American Foster Parent and Group Home Association
Association of Community Services Agency
Association of Minority Adolescents in Residential Care Homes
Association of Minority Adolescents in Residential Care Homes of Los Angeles County
California Alliance of Child and Family Services
Community Residential Care Association of California
County Welfare Directors Association
Foster Care Alliance
North Valley Children and Family Services, Inc.
Residential Care Providers Association of Los Angeles County

HOW TO CALCULATE FEDERAL REVENUE TO DETERMINE OMB CIRCULAR A-133 APPLICABILITY

Beginning April 1, 2003, OMB Circular A-133 (A-133) audit standards will be required for a non-profit corporation that operates a group home and/or a foster family agency (FFA) program which receives $300,000 or more in combined federal funds for all of its programs and activities during the non-profit corporation's fiscal year. A non-profit corporation that meets the A-133 funding threshold will be required to submit a financial audit report in accordance with A-133 standards annually. A non-profit corporation that meets the A-133 funding threshold whose fiscal year began prior to April 1, 2003, has the option to submit a financial audit report in accordance with *Government Auditing Standards* or A-133 standards. Subsequent financial audit reports submitted must meet A-133 standards.

A non-profit corporation that does not meet the A-133 funding threshold (receives less than $300,000) will be required to submit a financial audit report in accordance with *Government Auditing Standards* once every three years on a schedule determined by the California Department of Social Services. If federal revenues increase to $300,000 or more during a corporation's fiscal year, a financial audit report meeting A-133 standards must be submitted for that year and for every year that total federal revenues equal $300,000 or more.

Since foster care payments are a combination of federal, State and county funds, the non-profit corporation should calculate the federal portion of the revenue to determine whether a financial audit report must meet A-133 audit standards or *Government Auditing Standards*. The federal revenue formula is different for group homes and FFAs primarily because FFAs have different rates for the different age ranges and have a federal and non-federal portion for both its maintenance and administration ratios.

Group Home Calculation

Include in the calculation only those amounts identified on checks from the county coded with "42" or "03". To calculate the federal portion of the AFDC-FC Title IV-E funds, use the following formula:

Multiply the total foster care revenue received from each county (identified from checks coded with "42" or "03"), by the federally allowable cost sharing ratio indicated in the provider's rate letter; then multiply by the Federal Medical Assistance Payment (FMAP) rate applicable for the audit reporting period.

<u>Example 1:</u> Group Home Provider AAA is a group home with total foster care revenue of $699,552 based on checks from the county coded "42" and "03" for the reporting period. The federally allowable sharing ratio is 96.5% according to the provider's rate letter.

Multiply the total foster care revenue by the federally allowable cost sharing ratio; then multiply by the FMAP rate.

FC revenue x	Sharing ratio x	FMAP rate =	Federal FC revenue
$699,552 x	96.5% x	51.4% =	$346,985

Since the amount of federal revenues exceeds the $300,000 threshold for A-133 applicability, Group Home Provider AAA must submit a financial audit report in compliance with A-133 standards.

<u>Example 2:</u> For purposes of this example, Group Home Provider XXX has the same amount of foster care revenue as the provider in Example 1 but has a federally allowable sharing ratio of 81.5%.

Multiply the total foster care revenue by the federally allowable cost sharing ratio; then multiply by the FMAP rate.

FC revenue x	Sharing ratio x	FMAP rate =	Federal FC revenue
$699,552 x	81.5% x	51.4% =	$293,049

Group Home Provider XXX would be required to submit a financial audit report in compliance with *Government Auditing Standards* since the amount of federal revenues is below the $300,000 threshold.

NOTE: Any federal revenue from other sources such as Mental Health and Education must be added to AFDC-FC Title IV-E revenues in determining OMB Circular A-133 applicability.

HOW TO CALCULATE FEDERAL REVENUE TO DETERMINE OMB CIRCULAR A-133 APPLICABILITY

Foster Family Agency Calculation

Foster family agency rates consist of a combination of maintenance and administration funds with rates for five different age ranges. To calculate the federal portion of the AFDC-FC rate, use the following formula taking care to include only those AFDC-FC Title IV-E eligible placements whose county checks contained the code "42" or "03":

> Multiply the rate by the maintenance ratio; then multiply the federal portion of the maintenance ratio to get the product. Next, multiply the rate by the administration ratio; then multiply the federal portion of the administration ratio to get the product. Add the two products (federal portion of maintenance and federal portion of administration) to get the total federal portion. Next multiply the total federal portions by the FMAP rate applicable for the audit reporting period to determine the amount of federal FC revenue for each child in placement.

Example:
Foster family agency FFA has a child in placement in the 0-4 years of age range with a rate of $1,589. The maintenance ratio is 59.97% and the federal portion of the maintenance ratio is 65.48%. FFA's administration ratio is 40.03% and the federal portion of the administration ratio is 65.57%. The appropriate FMAP rate is 51.40%. Refer to the chart below for an illustration of the calculations used for this example.

Rate x	Maintenance ratio x	Federal portion of maintenance ratio	= Product
$1,589	59.97%	65.48%	$623.97

Rate x	Administration ratio x	Federal portion of administration ratio	= Product
$1,589	40.03%	65.57%	$417.08

Total Federal Portion	$1,041.05

Federal portion x	FMAP rate =	Federal FC revenue
$1,041.05 x	51.40% =	$535.10

Continue the same calculation for each child in the FFA for each month throughout the financial audit period. The calculation methodology is the same for each age range using the appropriate maintenance/administration and the federal/nonfederal funding ratios shown in the rate letter for the audit period. (If a birthday moves the child into a different age range category, be sure to use the appropriate rate which corresponds with the child's age for the given month.) Determine the total AFDC-FC Title IV-E federal revenues by adding all the amounts calculated for each child in placement. Add any federal revenues from other sources such as Mental Health and Education to the total AFDC-FC Title IV-E revenues. If total federal revenues equal or exceed $300,000, OMB Circular A-133 audit standards would be required. If total federal revenues are below the $300,000 threshold, *Government Auditing Standards* would be required.

Website Reference:

Federal Medical Assistance Payments (FMAP) Rate Chart
www.dss.cahwnet.gov/pdf/FMAPCHART.PDF